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Message Text

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ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 NEA-10 IO-13 H-01 L-03 PA-01
PRS-01 SP-02 USIA-06 AID-05 EB-08 NSC-05 SS-15
STR-05 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03
INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 /108 W
----------084675 280739Z /21
P 280608Z OCT 77
FM AMEMBASSY MANILA
TO SECSTATE WASHDC PRIORITY 7173

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USADB

FOR NAC AGENCIES

E. O. 11652: NA
TAGS: EAID, EFIN
SUBJECT: PROGRAM LENDING

SUMMARY: ADB MANAGEMENT IS PREPOSING THAT IT INSTITUTE A POLICY OF PROGRAM LENDING WHEREBY ALL DEVELOPING MEMBER COUNTRIES (DMCS) SHOULD BE ELIGIBLE IN PRINCIPLE SUBJECT TO THEIR MEETING ALL CONDITIONS PRECEDENT. BANK'S LEGAL OPINION IS THAT CHARTER DOES NOT PRECLUDE PROGRAM LENDING, AND PRESIDENT AND A NUMBER OF MEMBER COUNTRIES FAVOR SUCH LENDING. USADB SUGGESTS THAT BEST APPROACH WOULD BE TO SEEK TO RESTRICT ITS USE TO EXTENT POSSIBLE. END SUMMARY.

1. ADB DOC. WORKING PAPER 7-77 ON PROGRAM LENDING WAS POUCHED OCTOBER 14 AND WILL BE CONSIDERED BY BOARD OF DIRECTORS NOVEMBER 17.

2. WHILE RECOGNIZING THAT ARTICLE 14(I) OF ADB CHARTER SPECIFIES THAT BANK'S OPERATIONS SHALL PROVIDE PRINCIPALLY
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FOR FINANCING OF SPECIFIC PROJECTS AND CONTINUING NEED OF DMCS FOR PROJECT LOANS, MANAGEMENT IS NOW RECOMMENDING THAT BOARD OF DIRECTORS CONSIDER PROGRAM LENDING IN SPECIAL CIRCUMSTANCES TO COMPLEMENT PROJECT LENDING.

3. PROPOSAL PRESENTED RECOMMENDS THAT PROGRAM LENDING MAY BE UNDERTAKEN IN FOLLOWING CIRCUMSTANCES:

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A. IT MUST BE FOR A HIGH PRIORITY SECTOR OR ACTIVITY (I) WHERE THERE IS EXISTING, OR IMMINENT DANGER OF, CONSIDERABLE UNDERUTILIZED CAPACITY AND (II) WHERE, WITH AN INPUT OF RESOURCES FROM BANK FOR A RELATIVELY SHORT PERIOD (OF ABOUT TWO YEARS), OPTIONAL CAPACITY UTILIZATION IN SECTOR OR ACTIVITY CAN THEREAFTER BE MAINTAINED WITH COUNTRY'S OWN RESOURCES;

B. PROSPECTIVE BORROWER HAS PRESENTED PROGRAM OF MAINTENANCE OF SYSTEM BALANCING FOR SECTOR OR ACTIVITY CONCERNED PROVIDING SATISFACTORY BASIS FOR ASSISTANCE;

C. BNAK IS REASONABLY SATISFIED NO OTHER SOURCE OF FINANCING FOR PROGRAM IS AVAILABLE;

D. THERE IS EVIDENCE AVAILABLE FOREIGN EXCHANGE IS BEING RATIONALLY USED AND, DESPITE SUCH USE, FOREX SHORTAGE IS RESPONSIBLE FOR UNDERUTILIZATION OF PRODUCTION CAPACITY, PARTICULARLY BECAUSE OF LACK OF ESSENTIAL BALANCING EQUIPMENT, COMPONENTS, SPARE PARTS, AND RAW MATERIALS; AND

E. BORROWER IS ABLE TO ASSURE THAT, BEYOND PERIOD OF BANK FAINANCING, IT WILL PROVIDE NECESSARY RESOURCES INCLUDING FOREX ON A MUTUALLY AGREED AND PREARRANGED LIMITED OFFICIAL USE

SCALE FOR ENSURING OPTIMUM UTILIZATION OF CAPACITY, AND A COVENANT FORMALIZING SUCH ASSURANCE WILL BE A CONDITION FOR A BANK LOAN.

4. IN CARRYING OUT SUCH A POLICY, WORKING PAPER SPECIFIES INTER ALIA THAT:

A. WHERE INSTITUTIONAL DEFICIENCIES ARE IDENTIFIED AS FACTOR CAUSING UNDERUTILIZATION OF EXISTING FACILITIES, BORROWER SHOULD BE REQUIRED TO TAKE NECESSARY RECTIFYING MEASURES, IF NEED BE WITH TECHNICAL ASSISTANCE FROM BANK.

B. ALL DMCS SHOULD IN PRINCIPLE BE ELIGIBLE FOR PROGRAM LENDING, SUBJECT TO THEIR MEETING CONDITIONS IN PARA. 3 ABOVE.

C. PROGRAM LENDING MAY BE PROVIDED UP TO 10 PERCENT OF BANK'S ANNUAL LENDING TO A PARTICULAR COUNTRY. HOWEVER, SUCH LEVEL WOULD SERVE ONLY AS A BROAD GUIDELINE, NOT AS A RIGID CEILING.

D. NUMBER OF YEARS OF IMPORT REQUIREMENTS TO BE

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FINANCED SHOULD NORMALLY NOT BE EXPECTED TO EXCEED TWO YEARS.

E. PREVAILING INTEREST RATE OR SERVICE CHARGE WILL BE APPLIED. STANDARD ADF TERMS FOR AMORTIZATION AND GRACE PERIODS WILL APPLY FOR PROGRAM LOANS FROM ADF RESOURCES, WHILE A UNIFORM 15 YEARS INCLUDING 3 YEARS GRACE WILL APPLY TO LOANS FROM ORDINARY RESOURCES.

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F. PROCUREMENT IN SUITABLE PACKAGES OVER $100,000 WILL GENERALLY BE CARRIED OUT THROUGH INTERNATIONAL COMPETITIVE BIDDING (ICB). HOWEVER, ICB MAY BE WAIVED BY BOARD OF DIRECTORS WHERE JUSTIFIED IN FAVOR OF INTERNATIONAL SHOPPING OR WHERE PROPRIETARY PROCUREMENT IS AUTHORIZED.

G. WHILE A BROAD INDICATION OF THE DEVELOPMENT USE OF COUNTERPART FUNDS GENERATED BY PROGRAM LOANS MAY BE INCLUDED IN RELEVANT LOAN AGREEMENTS, CONTROL BY BANK OVER USE OF THESE FUNDS SHOULD BE EXERCISED FLEXIBLY.

5. WORKING PAPER DISCUSSES LEGAL IMPLICATIONS OF CHARTER AND CONCLUDES THAT BANK IS AUTHORIZED TO UNDERTAKE FINANCING OF PROGRAM LOANS OF TYPE CONTEMPLATED PROVIDED THAT FINANCING OF SPECIFIC PROJECTS MUST CONTINUE TO BE BANK'S

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PRINCIPAL MODE OF OPERATION. WORKING PAPER ALSO RECOGNIZES
THAT SCALE OF SECOND CAPITAL INCREASE AND LIKELY SCALE OF
SECOND ADF REPLENISHMENT WOULD NOT PERMIT LARGE-SCALE AND
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REPETITIVE PROGRAM LOAN COMMITMENTS WITHOUT MAJOR DETRI-
MENT TO BANK'S PRIMARY FUNCTION OF PROJECT FINANCING.
IT ALSO RECOGNIZES THAT PROGRAM LENDING MAY BE AVAILABLE
FROM OTHER SOURCES AND BANK SHOULD AVOID REPLACING
FINANCIAL FLOWS FROM SUCH RESOURCES.

6. FROM USADB DISCUSSIONS WITH VICE PRESIDENT AND ADB
STAFF, IT WOULD APPEAR THAT BANK STAFF IS THINKING OF A
RATHER MODES PORGRAM, WITH MAIN LIMITING FACTOR BEING THE
10 PERCENT RESTRICTION (PARA. 4(C) ABOVE). STAFF VIEW
IS THAT THERE WOULD PROBABLY BE A MXIMUM OF THREE SUCH
PROGRAM LOANS PER YEAR, WITH PERHAPS ONE GOING TO
ONE OF THREE ASEAN COUNTRIES--PHILLPPINES, THAILAND OR
INDONESIA--WHILE TWO WOULD GO TO LESSER DEVELOPED
COUNTRIES ELIGIBLE FOR CONCESSIONAL LOANS. STAFF NOTE
THAT UNLIKE IBRD/IDA, WHICH HAS EXTENDED PROGRAM LOANS
FOR (A) INDUSTRIAL IMPORTS TO UTILIZE EXISTING CAPACITY,
(B) RECONSTRUCTION OR REHABILITATION AFTER WAR OR NATURAL
DISASTER, AND (C) GENERAL SUPPORT OF DEVELOPMENT PROGRAMS,
PROPOSED ADB FACILITY WOULD BE LIMITED TO CATEGORY OF
INDUSTRIAL IMPORTS TO OFFSET UNDERUTILIZED CAPACITY.

7. IN HIS ADDRESS TO BORAD OF GOVERNORS AT LAST APRIL'S
ANNUAL MEETING IN MANILA, PRESIDENT YOSHIDA SAID HE
BELIEVED TIME WAS RIPE TO CONSIDER POSSIBILITY OF PROGRAM
LENDING WITHIN VERY CAREFULLY DEFINED LIMITS. NINE
GOVERNORS (INCLUDING THOSE FROM JAPAN, NETHERLANDS, SWEDEN,
AND UNITED KINGDOM) SUPPORTED PROGRAM LENDING TO SOME
EXTENT. PRESIDENT APPARENTLY FEELS OBLIGATION TO
COME FORWARD WITH A PROPOSAL. VICE PRESIDENT INFORMED U.S.
EXECUTIVE DIRECTOR THAT HE ANTICIPATES DEVELOPING COUNTRIES
ON BOARD OF DIRECTORS WILL ATTACK PROGRAM AS BEING TOO LIMITED
IN SCOPE.
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8. USADB TENDS TO AGREE IN PRINCIPLE AS TO THE LOGIC OF
BANK HAVING SUCH A FACILITY FOR POSSIBLE USE, ALTHOUGH WE
ARE NOT CONVINCED THAT PROGRAM LENDING ACTUALLY IS A HIGH
PRIORITY MATTER FOR THIS BANK. NEVERTHELESS, PRESIDENT
YOSHIDA HAS COMMITTED HIMSELF TO PROGRAM LENDING,

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AND HE HAS WIDE RANGE OF SUPPORT FOR THIS PROGRAM.

9. USADB BELIEVES THAT OUR PUBLIC POSTURE SHOULD BE ONE OF SKEPTICISM CONCERNING HIGH PRIORITY NEED FOR ADB TO EXTEND PROGRAM LENDING. WE SHOULD SEEK TO SUPPORT BANK STAFF IN ITS INTENTION TO ENGAGE IN ONLY LIMITED PROGRAM LENDING BY ESTABLISHING RECORD IN BOARD THAT WOULD ENCOURAGE USE OF PROGRAM LENDING ONLY IN THOSE CASES WHERE IT CLEARLY CAN BE JUSTIFIED, AS ANY SUCH USE OF BANK'S RESOURCES WILL BE AT EXPENSE OF PROJECT LENDING. IN ADDITION TO DETAILED ARGUMENTATION THAT WASHINGTON CAN PROVIDE RE DANGER OF WIDESPREAD PROGRAM LENDING, WE WOULD ALSO APPRECIATE WASHINGTON VIEWS ON EXTENT TO WHICH OTHER SOURCES OF FINANCIAL ASSISTANCE (E.G., IMF COMPENSATORY FINANCING, IMF OIL FACILITY, ETC.) MIGHT BE CONSIDERED AS ALTERNATIVES TO PROGRAM LENDING.
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Message Attributes

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TAGS: EAID, EFIN
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Type: TE
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